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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 005644

SIPDIS

NSC FOR MCKIBBEN  
STATE FOR E, EB/IFD/OMA, AND EUR/SCE  
TREASURY FOR OASIA - LEICHTER AND MILLS

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [TU](#)  
SUBJECT: BANK REGULATOR'S HEADACHES

REF: A. A) ANKARA 4470  
[B. B\) ANKARA 5075](#)  
[C. C\) ANKARA 5551](#)

[11.](#) (U) Classified by Economic Counselor Scot Marciel for reasons 1.5 (b) and (d).

[12.](#) (C) Summary: In a meeting with econoffs September 4, embattled BRSA Chairman Engin Akcakoca described GOT consideration of legislation that, if enacted in its current form, would greatly reduce the independence of regulatory bodies such as BRSA. However, Akcakoca predicted that only one of the independence-reducing features will actually survive. Separately, a World Bank economist said the IFI,s would never accept the draft law as currently drafted.

[13.](#) (C) On the Imar Bank case, Akcakoca put the total sum of questionable accounts at something on the order of TL 6.5 Quadrillion (USD 4.6 billion). The BRSA had found fewer fictitious deposits than initially suspected, and for many accounts, they lacked sufficient proof the deposits were fictitious. End Summary.

Possible new Law on Independent Regulatory Bodies:  
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[14.](#) (C) In a September 4 meeting with econoffs, BRSA Chairman Engin Akcakoca outlined the Government,s new effort to rein in the independent regulatory bodies. Akcakoca opined that the Government,s main target is BRSA. Comment: The Imar Bank case has only ratcheted up Government pressure on the BRSA, including a meeting with Prime Minister Erdogan in late August. End Comment. At the end of the meeting with econoffs, Akcakoca joked about how much longer he would need to complete his agenda, seeming to imply he was not leaving any time soon.

[15.](#) (C) Akcakoca explained that he and the other regulatory body heads had been convoked to a meeting that morning for a consultation on the proposed new law. Akcakoca characterized the meeting as a preliminary consultation to get regulatory body heads, views. According to Akcakoca, the regulatory body leaders had a very negative reaction to many of the proposed provisions, and the proposed law failed to take into account the differences between the functions of the various regulatory bodies. Akcakoca,s personal prediction is that several of the provisions will not survive into the final version. These include a requirement that regulatory boards get a government agency's (probably the State Planning Organization's) approval prior to issuing to decrees, and institution of a 60-day waiting period for all board actions plus an additional 2 to 3 weeks before the actions would be fully effective. Akacokca pointed out how inappropriate this would be for a bank seizure. Most likely to survive, however, is a provision that would allow the Government to register in court its opposition to actions taken by regulatory bodies, with courts then having the power to rule whether the action was appropriate. Akcakoca said this would be a significant, unhealthy change from the current system.

[16.](#) (C) Akcakoca did not detect any evidence of GOT consultation with the IFI,s on the proposal. In a separate meeting the same day, World Bank economist Jim Parks told Econoff the Bank had managed to procure a copy of the draft proposal, which he said would be completely unacceptable in its current form.

Imar Bank:

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17. (C) The criminal cases arising from Imar Bank are no longer in the BRSA,s hands, according to Akcakoca, having been turned over to prosecutors. The BRSA continues to segregate good and bad accounts. Their latest estimate of the total of unreported accounts referred to prosecutors is on the order of TL 6.5 Quadrillion (USD 4.6 billion). Akcakoca said the size of the deposit base the BRSA would have to cover was larger than he had earlier thought for two reasons: there were fewer fictitious accounts, and the BRSA lacked sufficient proof of fraud to refuse to cover accounts that might be fictitious. The BRSA can, however, decline to cover accounts created by monies transferred to Turkey from offshore accounts, notably from northern Cyprus. The cut off date for new accounts to benefit from the SDIF (the deposit insurance agency under the BRSA umbrella) guarantee probably would be the date of the seizure of the Uzan group,s electricity companies. Once these companies were seized, the markets realized the weakness of the Uzans, financial condition.

18. (C) Akcakoca marveled at the extraordinary sophistication of the Imar fraud, requiring a cadre of 15-20 highly qualified people to administer a complicated software program that invisibly erased transactions from bank branches' daily logs. Akcakoca claimed that the BRSA now had a pretty good understanding of the liability side of Imar,s balance sheet but continued to have problems reassembling the asset side. In order to prevent future Imar-type cases, Akcakoca said he has established an internal committee to analyze what went wrong with BRSA,s surveillance and propose corrective actions.

19. (C) The details of how the GOT and BRSA would finance the intervention remain to be worked out. Under new legislation the BRSA and Treasury have to jointly propose a financing plan to the Council of Ministers. The BRSA has written a draft but awaits Treasury,s comments. According to Akcakoca, the IMF has proposed that the deposits would be transferred to Ziraat Bank and then financed by government bonds provided to Ziraat. Akcakoca said this approach was used in a similar case in the Dominican Republic but in that case the authorities had a much better fix on the accounts. One issue that needs to be worked out is how much the GOT and BRSA might make whole purchasers of government bonds sold by Imar. Though BRSA/SDIF would normally only cover insured deposits, there may be a need to cover purchasers in good faith of government bonds sold by Imar. Akcakoca explained that a refusal to cover bondholders could affect market confidence in government bonds and, potentially, in the banking system. To cover such bondholders would require a new law, however.

110. (SBU) On the new law allowing the authorities to seize assets of families of owners of failed banks, Akcakoca confirmed that it is not retroactive, but the relevant date is when depositors are paid, not when the bank was seized or when fraud was committed. Therefore, the assets can be blocked now, and once depositors are paid, the SDIF can seize and dispose of the assets.

111. (C) Akcakoca said the BRSA is being careful to allow Uzan-owned companies to continue functioning--within guidelines--so as not to destroy their value before SDIF sale.

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